

MACKINAC BRIDGE AUTHORITY

Insurance Update

May 1, 2009

Mackinac Bridge Authority
Insurance Expense and Claims
September, 2008 through April, 2009

	Hylant Group	Cheeseman Insurance	Total
Annual Premium	\$177,768	\$24,574	\$202,342
Eight months expense	\$118,512	\$16,383	\$134,895
* Claims within first six months	\$2,604	0	\$2,604

* A trailer mounted arrow board purchased in 2004 for \$5,045 was damaged by wind on October 13, 2008. The insurance claim was settled for \$2,604 after \$1,441 was deducted for depreciation and the \$1,000 deductible applied.

Mackinac Bridge Authority
Yearly Insurance Expense by Policy
April 30, 2009

Broker	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	10 Year Totals	Averages
	Marsh	Marsh	Marsh	Marsh	Dobson Cheeseman	Dobson Cheeseman	Dobson Cheeseman	Dobson Cheeseman	Dobson Cheeseman	Dobson Cheeseman		
General Liability	\$80,660	\$56,867	\$66,941	\$113,429	\$108,295	\$107,479	\$92,551	\$93,458	\$87,259	\$83,842	\$890,780	\$89,078
Excess Liability	39,000	44,883	42,708	47,315	71,835	61,500	54,579	57,400	57,400	55,907	\$532,528	\$53,253
Director Liability	16,700	18,370	27,578	NC	NC	NC	NC	NC	NC	NC	\$62,648	\$20,883
Contractor Equipment	*	*	*	9,208	12,057	11,593	14,169	11,666	11,274	11,274	\$81,241	\$11,606
Boiler and Machinery	1,146	1,033	1,188	1,446	1,743	1,820	1,662	1,878	1,396	1,396	\$14,708	\$1,471
Crime	*	*	*	217	456	2,697	2,379	2,668	2,668	2,668	\$13,753	\$1,965
Pollution - USTs	NC	NC	882	NC	NC	NC	NC	NC	NC	NC	\$882	882
Bridge Property	222,330	208,708	249,500	NC	NC	NC	NC	NC	NC	NC	\$680,538	226,846
Business Property	17,343	20,088	30,428	18,612	22,603	23,974	19,415	20,952	17,577	17,601	\$208,593	\$20,859
Marine	3,337	3,337	4,165	4,998	5,989	5,000	4,590	5,080	5,000	5,080	\$46,576	\$4,658
Auto	24,596	22,895	28,609	24,337	30,528	28,267	26,365	27,149	24,138	24,574	\$261,457	26,146
Brokerage Fees		40,000	40,000	40,000							\$120,000	40,000
14 Year Totals	\$405,112	\$416,181	\$491,999	\$259,562	\$253,506	\$242,330	\$215,710	\$220,251	\$206,712	\$202,342	\$2,913,705	\$208,122

* Included with Business Property policy
NC - No coverage

**Mackinac Bridge Authority
Insurance Claims Paid
April 30, 2009**

Policy Year	Business Property	Liability	Watercraft	Sub Total	Auto	Total Claims	Premiums Paid	Claims/ Premiums
2009	\$2,604	\$0	\$0	\$2,604	\$0	\$2,604	\$202,342	1.3%
2008	\$0	\$0	\$0	\$0	\$497	\$497	\$206,712	0.2%
2007	\$0	\$0	\$0	\$0	\$0	\$0	\$220,251	0.0%
2006	\$0	\$0	\$0	\$0	\$500	\$500	\$215,710	0.2%
2005	\$7,529	\$0	\$0	\$7,529	\$0	\$7,529	\$242,330	3.1%
2004	\$0	\$0	\$0	\$0	\$3,414	\$3,414	\$253,506	1.3%
2003	\$0	\$0	\$0	\$0	\$0	\$0	\$259,562	0.0%
2002	\$0	\$0	\$0	\$0	\$1,033	\$1,033	\$491,999	0.2%
2001	\$1,939	\$0	\$0	\$1,939	\$5,128	\$7,067	\$416,181	1.7%
2000	\$0	\$0	\$0	\$0	\$3,388	\$3,388	\$405,112	0.8%
10 Yr Total	<u>\$12,072</u>	<u>\$0</u>	<u>\$0</u>	<u>\$12,072</u>	<u>\$13,960</u>	<u>\$26,032</u>	<u>\$2,913,705</u>	<u>0.9%</u>
10 Yr Average	\$1,207	\$0	\$0	\$1,207	\$1,396	\$2,603	\$291,371	0.9%

Mackinac Bridge Authority
Yearly Insurance Expense by Policy
April 30, 2009

Broker	1995/1996	1996/1997	1997/1998	1998/1999	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	14 Year Totals	Averages
						Marsh	Marsh	Marsh	Dobson Cheeseman	Dobson Cheeseman	Dobson Cheeseman	Dobson Cheeseman	Dobson Cheeseman	Dobson Cheeseman		
General Liability	\$83,975	\$68,000	\$68,000	\$80,000	\$80,660	\$56,867	\$66,941	\$113,429	\$108,295	\$107,479	\$92,551	\$93,458	\$87,259	\$83,842	\$1,190,755	\$85,054
Excess Liability	59,000	52,000	52,000	40,000	39,000	44,883	42,708	47,315	71,835	61,500	54,579	57,400	57,400	55,907	\$734,528	\$52,466
Director Liability	18,504	18,534	18,042	17,579	16,700	18,370	27,578	NC	NC	NC	NC	NC	NC	NC	\$135,307	\$19,330
Contractor Equipment	*	*	*	*	*	*	*	9,208	12,057	11,593	14,169	11,666	11,274	11,274	\$81,241	\$11,606
Boiler and Machinery	*	*	*	1,049	1,146	1,033	1,188	1,446	1,743	1,820	1,662	1,878	1,396	1,396	\$15,757	\$1,432
Crime	*	*	*	*	*	*	*	217	456	2,697	2,379	2,668	2,668	2,668	\$13,753	\$1,965
Pollution - USTs	NC	NC	NC	NC	NC	NC	882	NC	NC	NC	NC	NC	NC	NC	882	882
Bridge Property	226,833	240,650	251,269	214,292	222,330	208,708	249,500	NC	NC	NC	NC	NC	NC	NC	\$1,613,562	230,512
Business Property	35,763	36,386	38,776	37,499	17,343	20,088	30,428	18,612	22,603	23,974	19,415	20,952	17,577	17,601	\$357,017	\$25,501
Marine	3,170	3,082	3,337	3,337	3,337	3,337	4,165	4,998	5,989	5,000	4,590	5,080	5,000	5,080	\$59,502	\$4,250
Auto	*	*	*	*	24,596	22,895	28,609	24,337	30,528	28,267	26,365	27,149	24,138	24,574	\$261,457	26,146
Brokerage Fees						40,000	40,000	40,000							\$120,000	40,000
14 Year Totals	\$426,245	\$418,652	\$431,423	\$393,756	\$405,112	\$416,181	\$491,999	\$259,562	\$253,506	\$242,330	\$215,710	\$220,251	\$206,712	\$202,342	\$4,583,781	\$327,413

* Included with Business Property policy
NC - No coverage

MACKINAC BRIDGE AUTHORITY
History of Insurance Coverage Carried
April 30, 2009

	1955	1956	1957 to 1972	1973 to 1979	1980 to 1987	1988 to 2001	2001 to 2002	2003 to 2009
General Liability			***	***	***	***	***	***
Excess Liability					***	***	***	***
Directors Liability						***	***	
Business Property (1)			***	***	***	***	***	***
Marine				***	***	***	***	***
Bridge Damage (2)		***	***	***	***	***	***	
Workers Comp		***	***	***	***	***	***	***
Employee Crime	***	***	***	***	***	***	***	***
Pollution							***	

(1) Business Property includes buildings, equipment, and auto coverage.

(2) Bridge Damage includes physical damage to the bridge superstructure, debris removal, and loss of revenue.

Mackinac Bridge Authority
Historical Summary of Insurance Coverage
April 30, 2009

Section 6 of Act 214 of the Public Acts of 1952, authorized the trust indenture, which secured the bonds for the construction of the Mackinac Bridge, to provide for insurance of the bridge. Section 707 of the trust indenture between the Mackinac Bridge Authority and the Detroit Trust Company as trustee dated July 1, 1953, required the Authority to carry physical damage insurance covering the bridge itself. Section 708 required the Authority to also carry "use and occupancy insurance covering loss of revenues from the bridge by reason of necessary interruption," as well as "workmen's compensation or employers' liability insurance as may be required by law and such public liability and property damage insurance as the consulting engineers may recommend." The apparent intent of the trust indenture regarding insurance was to protect the bondholders from financial loss due to property and/or casualty damage and any resulting loss of toll revenue.

The redemption of the bonds on July 1, 1986, removed the trust indenture. As a result, insurance coverage was no longer legally required. In May of 1987, the members of the Mackinac Bridge Task Force, appointed by Governor James Blanchard, recommended that the "Authority continue to maintain insurance coverage on the bridge" "due to the substantial replacement cost of the bridge and the potential exposure to damage." The Authority, with the concurrence of MDOT Director, Mr. James Pitz, continued to purchase insurance similar to prior practices based upon the recommendation of the task force. All coverage continued throughout the years with policy limits and deductibles changing based upon market conditions and pricing, until September 1, 2002.

With the terrorist bombing of the World Trade Center on September 11, 2001, the cost of physical damage insurance covering the bridge increased from approximately \$220,000 annually for coverage of the maximum probable loss of \$310 million including terrorism, to \$430,000 with only a third of the coverage and excluded terrorism. The Authority debated both the high cost of premiums and the need for insurance with the likelihood that the Federal Highway Administration would cover most of the cost of repair or replacement in the event of damage. No longer being required to carry this insurance, the Authority decided to cease coverage of the existing policy at the expiration on September 1, 2002. Other action taken by the Authority at their August 15, 2002, meeting, included lowering the excess liability coverage from \$25 million to \$5 million, discontinuing the underground storage tank liability coverage, and discontinuing liability coverage for officers and directors. The Mackinac Bridge has been uninsured for physical damage and use and occupancy coverage since September 1, 2002.

On August 6, 2004, the MBA approved contracting with a firm to conduct a risk management and insurance review study. MDOT officials informed the Authority at their December 3, 2004, meeting that the Michigan Department of Management and Budget (DMB) could perform this study at a greatly reduced cost. The board, in a split

decision, approved having the study performed by DMB. The results of this study and associated recommendations were presented in draft form to the board at their April 8, 2005 meeting. DMB recommended that the MBA drop all existing insurance coverage at policy expiration, join the State of Michigan's self-insurance fund for automobile coverage, and not carry insurance for all other property and liability coverage.

The Authority discussed the potential cost savings of the DMB recommendations at their August 12, 2005, board meeting. MDOT officials presented the board with a draft State Transportation Commission Policy with the intention that MDOT may expend available revenue from the State Transportation Fund to satisfy losses sustained through the maintenance and operation of the Mackinac Bridge. However, due to uncertainties with coverage, claims handling, and loss financing, the board voted to renew existing insurance coverage as recommended by the broker. MDOT directed the Authority to not renew insurance coverage upon expiration on September 1, 2005. As such, all insurance coverage, with the exception of automobile insurance, was dropped on September 1, 2005.

On September 20, 2005, Governor Granholm signed an agreement clarifying the roles and responsibilities of both the MBA and the MDOT regarding the operation and management of the Mackinac Bridge. This agreement stated that the MBA had the independent decision-making role in areas of risk-management and insurance. As such, staff was directed by the board chair to bind the insurance coverage as moved by the board on August 12, 2005. Coverage was bound for the period of October 1, 2005 through September 1, 2006. The Governor's agreement was put into state law in December of 2005.

Currently, the buildings and equipment associated with the operations, maintenance and administration of the Mackinac Bridge are insured for property loss. All licensed vehicles are insured for casualty loss and uninsured and underinsured motorists. The two boats are covered for property and casualty damage. Public liability insurance is also carried.

Throughout 2008, the MBA negotiated with MDOT to develop a self insurance agreement whereas the MBA would fund annual loss claims up to an amount held in an insurance reserve account. MDOT would appropriate funds to fund loss claims in excess of this amount. Draft legislation was prepared by MDOT and the MBA to allow MDOT and the MBA to enter into this self insurance agreement. As of April 30, 2009, this draft legislation is awaiting legislative approval.

**SIXTH ROUGH DRAFT AGREEMENT
October 9, 2008**

STATE OF MICHIGAN

MICHIGAN DEPARTMENT OF TRANSPORTATION

MACKINAC BRIDGE AUTHORITY

AGREEMENT

The Michigan Department of Transportation (MDOT) and the Mackinac Bridge Authority (MBA) agree as follows:

1. Purpose

This Agreement is to implement Act _ of the Public Acts of ____, which amended 1950 (Ex Sess) PA 21 by adding section 3, MCL 254.303, and to provide for self-insurance of bridge assets and operations as provided in that statute and this Agreement. This Agreement is intended to provide that, to the extent that claims would otherwise have been paid under an insurance policy that the MBA carried before entering into this Agreement, the claim will be paid from a self-insurance reserve account to be established and maintained by the authority, or be paid by MDOT as provided in the statute and this Agreement.

2. Funding a self-insurance reserve account

The MBA shall fund a self-insurance reserve account by making an annual credit of \$200,000 until the total of the account equals \$1,000,000. Once the amount in the account reaches \$1,000,000, the authority may cease credits to the account until credits again become necessary to restore full funding after the payment of claims from the account. The amount of the credit made by the MBA for the self-insurance reserve account each year will be the lesser of \$200,000 or the difference between the account balance as of the close of business September 30 and \$1,000,000. The maximum annual credit to be made by the MBA to the self-insurance reserve account is \$200,000.

3. Payment of claims from self-insurance reserve account

Any MBA claim or third-party claim that arises and would have been paid by one of the insurance policies listed below, copies of which policies are attached, will be paid from funds in the self-insurance reserve account to the same extent as it would have been paid under the insurance policy, had the insurance policy remained in effect. The insurance coverages replaced by this agreement include:

Business Property
General Liability

Umbrella Liability
Boiler/Machinery Breakdown
Crime
Boat

4. MBA to bear the cost of deductible or ineligible claim

The MBA will bear the cost of any deductible that would have been payable under the applicable insurance policy, or the full cost of any claim, or portion of a claim, that would not have been eligible for payment by the insurance carrier under one of the insurance policies listed in Section 3.

5. Insufficiency in the self-insurance reserve account to be borne by MDOT

MDOT will bear the cost of any claim payable from the self-insurance reserve account under Section 3, to the extent that the self-insurance reserve account contains insufficient funds to pay the eligible portion of the claim.

6. Defense of claims

MDOT will fund legal services, through attorneys appointed by the Attorney General, to defend claims against the MBA, and will bear related expenses, subject to reimbursement under Section 7. If litigation is filed on a claim, MDOT will control the course and disposition of the litigation as if the claim were against MDOT. MDOT will advise the authority of pending litigation and consult with the authority regarding the potential disposition of the matter. MDOT may similarly settle or otherwise resolve third-party claims, before litigation is filed.

7. Payment or reimbursement for settlements, judgments, and costs of defense

MDOT's cost of litigation under Section 6 and any settlement or judgment providing for payment of a claim, will be paid as a claim from the self-insurance reserve account. If there are insufficient funds in the self-insurance reserve account, MDOT will bear the costs as provided in Section 5.

8. Notification of third-party claims

The MBA will provide notice of any claim by a third party, that may be payable under Sections 3 and 5, promptly upon learning of it, to:

Administrator of the Financial Operations Division (currently Edward A. Timpf)
P.O. Box 30050
Lansing, Michigan 48909
517-373-1527

Assistant Attorney General, Division Chief (currently Patrick F. Isom)

Transportation Division
Department of Attorney General
P.O. Box 30050
Lansing, Michigan 48909
517-373-1479

The MBA shall assist in the evaluation and defense of any third-party claim, cooperating with MDOT and its attorneys as requested. It is intended that MDOT and the MBA will work together to resolve claims in an efficient and cost-effective manner.

9. Processing of MBA claims

Claims that the MBA may make for payment or reimbursement to the MBA shall be submitted to MDOT at: Administrator of the Financial Operations Division (currently Edward A. Timpf) P.O. Box 30050, Lansing, Michigan 48909. The claim shall be payable to the extent, and as provided, in Sections 3 and 5 of this Agreement. Upon receipt of such a claim, MDOT shall consult with the MBA, as needed, and concur or disagree that the claim is payable under Sections 3 and 5 of this Agreement. If MDOT disagrees that all or any portion of the claim is payable under Sections 3 and 5, MDOT shall notify the MBA Board Chairperson, currently Bill Gnodtke, at N415 Interstate 75, St. Ignace, Michigan 49781, who shall consult with MDOT's Director, currently Kirk T. Steudle, P.E., at P.O. Box 30050, Lansing, Michigan 48909 to attempt to resolve the disagreement.

10. Resolution of disagreements on the payment of claims

If a disagreement arises over the payment or reimbursement of a claim that the staff of MDOT and the MBA are unable to resolve, the matter shall be resolved by the Director of MDOT and the Chairperson of the MBA, jointly, after due consultation.

11. Payments made from the self-insurance reserve account

Payments shall be made from the self-insurance reserve account to pay or reimburse claims in accordance with the terms of this Agreement upon the written concurrence of the designee of the MBA and the designee of the Director of MDOT. No payments shall be made from the self-insurance reserve account without that written concurrence.

12. Payments to the self-insurance reserve account

The MBA shall make its first annual credit to the self-insurance reserve account within 30 days after the effective date of this agreement. Subsequent annual credits will become due each October 1. The amount of the credit under Section 2 will be determined based on the account balance at the close of business on the day preceding the due date. The credit will be made to the self-insurance reserve account within 30 days after the due date.

13. Amendments

Any amendment to this Agreement must be in writing and signed by the parties after being approved by the MBA and the Director of MDOT.

14. Termination

Either party may terminate this Agreement, for any reason, by giving the other party written notice of termination not less than 90 days before the effective date of the termination. All claims and payments pending or owing under this Agreement, up until the date of termination, shall continue to be handled in accordance with the terms of this Agreement notwithstanding the termination, unless the parties otherwise agree.

15. Effective date

Once it is fully executed, this Agreement is effective as of [date cannot be inserted until legislation authorizing this Agreement is enacted].

Mackinac Bridge Authority

Michigan Department of Transportation

By: _____

By: _____

Dated: _____

Dated: _____



**House
Legislative
Analysis
Section**

House Office Building, 9 South
Lansing, Michigan 48909
Phone: 517/373-6466

MACKINAC BRIDGE SELF INSURANCE

House Bill 5965 as introduced

Sponsor: Rep. Gary McDowell

Committee: Transportation

Complete to 5-8-08

A SUMMARY OF HOUSE BILL 5965 AS REPORTED FROM COMMITTEE

House Bill 5965 would amend Public Act 21 of 1950 (Extra Session), the Mackinac Bridge Authority's original authorizing legislation, by amending the Act's title and by adding a new section, Section 1a. Section 1a would authorize the Mackinac Bridge Authority to enter into an agreement with the Michigan Department of Transportation to provide for the self-insurance of bridge assets and activities.

The bill indicates that the agreement may provide that, to the extent that claims would have otherwise been paid under an insurance policy carried by the Authority, claims would be paid from a self-insurance reserve account to be established and maintained by the authority. If there were not enough funds in the reserve account to pay a claim, the balance of the claim would be paid by the Department of Transportation from constitutionally-restricted transportation funds; i.e. motor fuel taxes and vehicle registration taxes. The bill directs that the self-insurance account authorized under the bill would be funded from annual payments of not less than \$200,000 until the account equaled at least \$1.0 million after payment of claims from the account. The bill also indicates that with regard to any claims for damages that are covered by the self-insurance agreement authorized under the bill, the department shall defend the Authority and control the course and disposition of the litigation. The department would be required to advise the authority of pending litigation and consult with the Authority regarding disposition of the claim. The department's litigation costs and any settlements or judgments would be charged to the self-insurance account or state transportation funds as provided under the section and the agreement.

BACKGROUND INFORMATION:

The Mackinac Bridge is a remarkable engineering achievement, a tourist attraction, and a symbol of the entire state of Michigan – as well as a major transportation link between Michigan's upper and lower peninsulas. At approximately five miles in length, the bridge is the third-longest suspension bridge in the world. Interest in spanning the Straits of Mackinac with a bridge began in the late 1800s and continued throughout the first half of the 20th Century.[1] During that time, several feasibility and engineering studies were conducted. But real progress on actual construction of the bridge began in 1950 when the legislature enacted 1950 (Ex Sess) PA 21 to create the Mackinac Bridge Authority.

The Mackinac Bridge Authority reported 4,077,436 crossings in the 2006-07 fiscal year, 53,555 fewer vehicles than the prior fiscal year. Reported operating revenue, from tolls and fees, was \$14.0 million in FY 2006-07, \$515,676 less than FY 2005-06.

Public Act 21 of 1950 (Ex Sess), the statute that established and governs the Mackinac Bridge Authority was recently amended by House Bill 5339 (2005) Public Act 332 of 2005 (Effective: 12/28/2005).

According the Notes to the Mackinac Bridge Authority's FY 2006-07 financial statements, the Authority has commercial insurance for "property loss (other than total loss of the bridge), torts, and errors and omission claims." The financial statements also indicate that: "Effective September 1, 2002, the Authority is not insured for total property loss of the bridge." Bridge management further indicates that the Authority does not insure the bridge for physical damage.

FISCAL IMPACT:

The bill would allow the Mackinac Bridge Authority to establish a self-insurance account and become self-insured with regard to claims up to \$1.0 million. If there were not enough funds in the reserve account to pay a claim, the balance of the claim would be paid by the Department of Transportation from constitutionally-restricted transportation funds; i.e., motor fuel taxes and vehicle registration taxes.

The Mackinac Bridge Authority indicates that it can save money by dropping commercial insurance coverage. The Authority provided insurance premium and claims information which indicated that over the last five years insurance premiums averaged \$237,000 per year while claims averaged \$2,300.

With regard to claims in excess of the amount available in the Authority's reserve account authorized under the bill, risk would be transferred from the Authority, a component unit of the state of Michigan, to the Michigan Department of Transportation – in effect from one state agency to another.

The bill affects the risks associated with tort liability and property loss other than the bridge structure itself. The bill would have no effect on the risks associated with physical damage to the bridge structure. The Authority has not insured the bridge structure for physical damage since September 1, 2002.

Fiscal Analyst: William E. Hamilton

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.

[1] A more detailed description of the history of the bridge as well as bridge specifications and traffic crossing data can be found on the Mackinac Bridge Authority's web site <http://www.mackinacbridge.org>